



# Capital Still Flocks to Heated SFR Market

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Experts weigh in on where the sector is heading and whether there's room for everyone at the table.

A study from Porch.com found that 61 percent of renters across the country's largest metros are priced out of buying a home in their area, showing that even saving up for years isn't enough in the current market. Here enters the opportunity for single-family rentals or built-for-rent properties, which offer the space and convenience of features such as garages and yards that a traditional home would offer, without the hassle of down payments and bidding wars.

"America is experiencing a significant housing crisis. There are simply not enough homes for sale or for rent," said Kevin Baldrige, chief operating officer, **Tricon Residential Inc.** "There is a gap in the continuum of housing between apartments and homeownership, particularly for young families, which has led to an unprecedented demand for high-quality, well-located and well-managed homes to rent."

So, as mortgage rates increase and homeownership remains out of reach for many, SFRs will be attracting even more investors than it already has. According to Yardi Matrix, institutions have committed \$60 billion to buy single-family homes over the past year. But increased competition in an already stiff environment, begs the question: Is there room for everyone?



*Farmhaus has served as the inspiration for three other AHV's duplex-style projects in the pipeline. The community features a barn as a social area for residents, a dog park, a pool with sundeck and fitness center. Image courtesy of AHV Communities*

## Competition ramps up

Operating them efficiently can bring additional hurdles. With these properties being operated as individual homes, it can be difficult to maintain or keep track of logistics for all of them. However, that is changing, and companies are adding onsite maintenance and management to the communities, making it easier for residents to ask for help. Additional features added to create a smoother operating system include concierge services, security and smart home technology.

“You have to be more than a check, more than passive capital. Find ways to bring what operators need into the forefront. Know what works and what doesn’t on projects,” said Ron Gonski, vice president of business development and growth, **Mosaic**. “There are increasing numbers of opportunities hitting the market. The amount of capital chasing the space is still high.”

Quality location and product is also tantamount. Areas with solid job growth, good schools and neighborhoods that include community amenities [renters](#)

[might be looking for](#), such as pools, parks and entertainment, offer some of the best prospects.

Midwestern states observe some of the highest proportions of SFR homes, according to John Burns Real Estate Consulting research. Texas, which currently sits at 34 percent SFR penetration, stands to receive significant new investment in the space. This would align the state with other Sun Belt markets, observing overall rental stock closer to 40 percent to 50 percent.

The Sun Belt, however, is topping the list in terms of demand, offering warmer weather, lower taxes and a more affordable lifestyle. The region is home to 40 percent of the population but is expected to see 60 percent of overall population growth in the U.S.

With rents skyrocketing and the sector drawing more companies, however, the for-sale inventory is becoming slim, and it will take longer to amass a significant portfolio. This only makes deals with top-tier assets in premier locations increasingly difficult.



*Tricon Trail Creek is located in New Braunfels, Texas, and features 180 three- and four-bedroom homes. It is one of 13 new communities being developed by the firm in the state. Image courtesy of Tricon Residential Inc.*

## Rates Work Both Ways

Of course, investors in the SFR space also need capital, and the rise in interest rates, higher construction costs and soaring home prices could make some deals harder to pencil out, and developments could take longer to get the green light.

**AHV** Founder & CEO Mark Wolf noted that last year many aggressive lenders were trying to get into the market, but interest has slowed. “For permanent loans there is still a lot of capital, but for construction it is more difficult,” he said.

Meanwhile, Blackstone’s Home Partners of America and other mega owners are choosing to slow their growth. Citing price appreciation, demand and regulation, HPA will stop buying in nearly 40 markets. But hesitance at the top could create opportunity for other investors enticed by the higher rents SFRs command.

Cap rates for SFRs are lower than traditional multifamily, while rents are higher on a per-square-foot basis because renters get more privacy and more space in the way of garages and patios. The average national SFR rate increased \$23 in June to its value yet, \$2,071, according to Yardi Matrix data.



*Tricon Bryson in Leander, Texas, offers amenities such as outdoor trails, a dog park, a pocket park with barbecues and a children’s playground, as well as clean energy efficient appliances and solar panels. Image courtesy of Tricon Residential Inc.*

## SFR success

AHV Communities has been in the space since 2013 and created its company with the focus on building market-rate built-for-rent communities owned, managed, maintained and operated like a luxury multifamily community. In San Antonio, the company debuted Farm Haus, which served as inspiration for three other AHV duplex-style [projects in the pipeline](#).

[Tricon Residential previously](#) announced a pipeline of 3,000 newly built rental homes across 23 communities, two of which recently broke ground in Texas, in May. The company spent the first 10 years of its infancy creating a people first, technology-enabled platform to operate at scale. With the use of that program, Tricon has an industry-low annual turnover rate of less than 20 percent and occupancies averaging 98 percent.

For those investing in the development of these communities, firms will want to stay up to date on the most accurate progress when it comes to construction. An orthomosaic is a survey-grade image provided monthly to project owners via Mosaic's recently launched drone overflight program. The image can be used to measure progress in key ways, from the most basic visual sense all the way to using the image for detailed analysis. Mosaic recently broke ground on a Class A, 200-unit townhome community in Gilbert, Ariz.